

TALVIVAARA MINING COMPANY

MAIN CONTENTS OF THE RESTRUCTURING PROGRAMME

1 Measures and Arrangements Designed to Improve Talvivaara Mining Company Plc's Business Operations

Restructuring proceedings under the Restructuring of Enterprises Act may be undertaken in order to rehabilitate a distressed debtor's viable business, to ensure its continued viability and to effect debt arrangements.

The application for initiating restructuring proceedings with respect to Talvivaara Sotkamo Ltd and Talvivaara Mining Company Plc was filed on 15/11/2013. The District Court began restructuring proceedings concerning Talvivaara Mining Company Plc on 29/11/2013 when 16 of the company's largest creditors stated that they supported beginning the proceedings. The creditors that supported beginning the proceedings represented a total of over one-fifth of the debtor company's known restructuring debts. The restructuring proceedings of Talvivaara Mining Company Plc's operative subsidiary, Talvivaara Sotkamo Ltd, began on 17/12/2013.

Once the administrator familiarised himself with the Talvivaara group's business operations, it became clear that the continuation of operations involved a number of challenges. Sufficiently long-term experience and proof of the functionality of the bioleaching technique had not yet been obtained at the end of 2013. The global market price for nickel was low, and the company did not have fully certain financing to cover the period of the proceedings. Given that there was also a great deal of excess water in the mine area and that there was uncertainty relating to the environmental and water permits essential to the continuation of the operative subsidiary's business operations and to investments due to pending permit and appeal processes, the administrator has had to determine whether restructuring proceedings are suitable for the companies in the Talvivaara group at all.

No demands that the proceedings be interrupted have been made to the administrator during the restructuring proceedings.

In the administrator's view the subsidiary's business operations have proven to be viable during the restructuring proceedings. The bioleaching technique has been successfully utilised in the functioning parts of the primary heaps, and the amounts of leached metals have been promising. During the restructuring proceedings, the subsidiary has produced a total of 8,700 tonnes of nickel, 17,400 tonnes of zinc and smaller amounts of copper and cobalt. The increase in the global market price of nickel has supported the subsidiary's finances, and a total of approximately EUR 100 million of income has been obtained from the sale of metals. The subsidiary has also been successful in negotiating short-term financing with one of its business partners, Nyrstar. The subsidiary has been granted a new environmental and water permit on 30/04/2014, though it did not fully meet the subsidiary's expectations, and the permit has been appeal.

The administrator is of the opinion that it is possible to make the mining operations in Sotkamo profitable. This will require, first, that the bioleaching technique proves functional at a larger scale. The leaching of the primary and secondary heaps must using the accumulated know-how and experience of the Company be made to function efficiently and on a long-term basis in all of the heaps undergoing active leaching. Key factors in achieving this goal are mining on a sufficiently large scale and careful preparation and heaping of crushed ore as well as continual and proactive monitoring of the irrigation and aeration of

the ore heaps in order to successfully leach the amount of metals from the mined ore stated in the business plan. The production costs must also not rise too high in proportion to the profits obtainable from the sale of metals. This requires that the long-term global market price for nickel would remain at least within the assumptions provided by the experts used by the administrators. The important environmental investments relating to the operation and expansion of the mine must be duly seen to.

There are numerous different grounds for continuing the business operations of the Sotkamo mine. Pellervo Economic Research PPT (**PTT**) and the Finnish Environment Institute (**SYKE**) have studied the benefits and detriments caused by mines for salaries from the perspective of the tourism industry, atmospheric emissions and waterways. The report published in September 2014 is entitled '*Kaivostoiminnan taloudellisten hyötyjen ja ympäristöhaittojen rahamääräinen arvottaminen*' (in English: Monetary valuation of financial benefits and environmental detriments of mining operations) and describes, among other things, the growth of the benefits of the mining industry for salaries deducted by the reduction in the benefits for salaries of the tourism industry. With respect to the Talvivaara mine, the positive net effect has been estimated at EUR 4.92 billion, whereas with the other examined mines the figure was under 500 million.

However, the continuation of business operations will require that new financing be obtained. The last financing round was in the spring of 2013 when Talvivaara Mining Company Plc raised EUR 261 million in a rights offering. Of this amount EUR 171 million was left for the use of the group after the payment of EUR 77 million nominal value convertible bond that matured in May 2013 and the covering of costs. The listing prospectus for the offering listed the following as risks associated with the investment, among other things:

- If Talvivaara is unable to achieve profitability and its cash flow from operations is not sufficient to fund its operations, it may need additional financing following the Offering, which may not be available on attractive terms or at all.
- The mining industry is characterised by significant capital and operating expenditure for the expansion of production and the maintenance of existing production facilities and estimates regarding future capital and operating expenditure are subject to significant uncertainty; further, there can be no assurance that Talvivaara will be able to obtain the required financing for its capital and operating expenditure requirements.
- Operational challenges have had, and continue to have, a material adverse effect on Talvivaara's production, business, financial condition and results of operations.
- The measures that Talvivaara has already taken, or plans to take, in order to address its operational challenges may not be sufficient and Talvivaara may not be able to ramp-up its production.

Many of the risks listed in the offering prospectus have been realised, which has hampered the Talvivaara group's ability to secure the new financing it needs during the restructuring proceedings. As it has not been possible to start mining and constructing new primary heaps due to insufficient financing, the need for new financing has grown all the time. It takes approximately 3–6 months before a primary heap begins to produce metals after mining is started, and delays in beginning mining have a direct effect on the amount of financing needed.

Despite these challenges, the administrator has together with the debtor company and its advisors sought parties that would be interested in financing the continuation of Talvivaara Sotkamo Ltd's mining operations in their current form. However, no such long-term financing solution has been found to date, and the customary financing required by and during the restructuring programme has not been available while the draft restructuring programme has been prepared.

For this reason, the point of departure for the administrator's draft restructuring programmes for Talvivaara companies is that the restructuring programme is based on the sale of all of Talvivaara Sotkamo Ltd's business operations through what is called a realisation restructuring process. In a realisation restructuring process, the assets of a company can be realised, and the funds obtained in this manner can be used to pay off debts in a similar manner as in a bankruptcy.¹

A realisation restructuring process provides the possibility to secure the continuation of operations at Talvivaara Sotkamo Ltd's mine under a new or reorganised ownership and capital structure. With respect to Talvivaara Mining Company Plc, it is not justified or in the interests of the creditors to discontinue the restructuring proceedings and initiate bankruptcy proceedings in order to realise the assets or shut down mining operations. The financial and regional effect of the Talvivaara mine both from the perspective of the mining industry and employment is significant from the perspective of Finnish society. For this reason, it is important to find a financial and operative solution that will secure the mine's operations in the long term and provide the creditors with the best possible accrual in the prevailing circumstances.

Under the draft restructuring programme for Talvivaara Sotkamo Oy, one payment could be made to the creditors, whereas the administrator's estimate is that no disbursements would be payable to the creditors in a bankruptcy. The realisation restructuring process includes the possibility to make supplementary payments.

The financial position of Talvivaara Mining Company Plc essentially depends upon the operations and financial performance of its subsidiary, Talvivaara Sotkamo Ltd. The parent company has loaned the subsidiary a total of over EUR 886.3 million, EUR 259 million of which is a subordinated loan. Due to its own financial difficulties, the subsidiary has not been able to pay off these debts. Talvivaara Mining Company Plc's business operations have not been profitable due to a heavy debt burden. The Company is Talvivaara Sotkamo Ltd's largest creditor by a significant margin.

In addition to financing, Talvivaara Mining Company Plc's business operations have consisted of producing group services for Talvivaara Sotkamo Ltd. Talvivaara Mining Company Plc has received rental income from Talvivaara Sotkamo Ltd for the analysis laboratory and lime plant owned by the parent company and located in the mine area.

The administrator is of the opinion that a customary eight-year restructuring programme can be drafted for Talvivaara Mining Company Plc, provided that financing for the duration of the implementation of the restructuring programme can be secured. As a listed company, Talvivaara Mining Company Plc has provided the Talvivaara group access to capital markets through share and debt instruments. The administrator is of the opinion that the parent company

¹ For more detailed information on the realisation restructuring process, see section 4.4.3 of the rationale of the government bill for the Restructuring of Enterprises Act 182/1992. Realisation restructuring is referred to, e.g. in section 7(3) and section 53(1)(6) of the Restructuring of Enterprises Act. For more on this subject, see Tuomas Hupli's article 'Epättyypilliset saneerausmenettelyt' (Atypical Restructuring Processes) in *Juhlajulkaisu Jarmo Tuomisto 1952-9/6-2012*.

can continue to be used for this purpose in the future, and it could also continue to provide group and rental services to the operative subsidiary. The business operations of Talvivaara Mining Company Plc are viable in the manner referred to in the Restructuring of Enterprises Act, provided that it continues to provide financing opportunities to the subsidiary after the realisation restructuring process. Talvivaara Mining Company Plc's withdrawal from the London Stock Exchange to Helsinki has eased and sped up the implementation of capital markets measures.

It is possible to arrange Talvivaara Mining Company Plc's debt using debt arrangements implemented in the restructuring programme so that the Company can effect their repayment during an eight-year restructuring programme. Talvivaara Mining Company Plc's income stream during the programme will consist of producing administrative and other group services, rental income, repayment of the amount loaned to Talvivaara Sotkamo Ltd during the proceedings and the payments on Talvivaara Sotkamo Ltd's long-term loan receivables through the realisation restructuring process.

2

Sale of Talvivaara Sotkamo Ltd's Business Operations

The realisation restructuring process of Talvivaara Sotkamo Oy can be implemented, for example, by Talvivaara Sotkamo Ltd signing a Business Purchase Agreement (hereinafter **BPA**) with a new company to be incorporated (hereinafter **NewCo**). The decision to sell requires the approval of Talvivaara Sotkamo Ltd's general meeting of shareholders. Talvivaara Mining Company Plc would be a founding partner of NewCo. Negotiations with other possible purchasers, financiers and industrial operators are still pending at the time the draft restructuring programme has been prepared.

All of Talvivaara Sotkamo Ltd's assets will be transferred to the ownership of NewCo in connection with the completion of the transaction. In the same connection, the product streaming and sale and purchase agreements in Talvivaara Sotkamo Ltd's name would be transferred in accordance with separately negotiated agreements.

The purchase price received from the business purchase would be used in full to pay Talvivaara Sotkamo Ltd's restructuring debts.

The transferability of the most material permits required for the business operations has been investigated, and the permits can for the most part be transferred to NewCo by notifications to the authorities. However, this transferability does not extend to the permits related to the industrial production of uranium, with respect to which a new application process would have to be initiated. This potential delay is not considered to have material financial or industrial significance from the perspective of the operational whole.

In addition to the transfer of permits, the continuation of mining operations in Sotkamo will require sufficient financing. For this reason, the new ownership and group structure must be such that it can support the acquisition of the financing required for the business operations both through direct financing from its owners and from the capital markets. The administrator's view is that such financing can be raised, provided that the ownership and group structure provides a credible and sustainable framework for the continuation of business operations.

The administrator's current understanding is that the realisation restructuring process described herein (the **NewCo Model**), if implemented, could also lead to a certain, possibly significant, degree of dilution of the holdings of Talvivaara Mining Company Plc's current shareholders. Because a share issue can be used as part of this arrangement in addition to a possible bond, the dilution of cur-

rent holdings will depend significantly on the amounts at which the current shareholder participate in such an arrangement.

Such decisions shall be separately executed in compliance with applicable company law.

The intention is to use instruments available on the capital markets as part of this arrangement. In the administrator's view, Talvivaara Mining Company Plc is well suited to this purpose.

The administrator and the Talvivaara companies are actively engaging in discussions concerning the implementation of the model for the realisation restructuring process. For this reason, the draft restructuring programme that the administrator is filing to the District Court does not yet include more specific details on the structure of, parties to and other terms and conditions of a possible business purchase or other arrangement. The Restructuring of Enterprises Act makes such a process possible.

The draft restructuring programme requires that Talvivaara Sotkamo Ltd must sign the BPA or other agreement otherwise facilitating the realisation restructuring process by 01/12/2014 under the threat that, after this date, the administrator can petition the District Court to interrupt the restructuring proceedings. The administrator can grant an extension to this deadline, provided that the District Court has correspondingly extended the deadline for submitting the statement. The administrator's view is that, if no agreement is reached on the business purchase or other arrangement by the date in question and lacking special grounds to extend the deadline, the preconditions for achieving or confirming a final restructuring programme for either Talvivaara company will no longer exist.

The administrator will supplement the draft restructuring programme once the method, terms and conditions and the receiving party of the transfer of business operations are known. The supplemented draft programme will be filed with the Espoo District Court in such a way that the creditors have sufficient time to review it and give their statement on the draft as referred to in the Restructuring of Enterprises Act.

3

Effect of the Restructuring Proceedings on the Position of the Shareholders

The management of the Company's financing and maintenance of capital is primarily the responsibility of the Company's owners. However, Talvivaara Sotkamo Ltd's owners, Talvivaara Mining Company Plc and Outokumpu Mining Oy, have not committed to investing more capital in Talvivaara Sotkamo Ltd.

The realisation restructuring process to be implemented in Talvivaara Sotkamo Ltd will lead to the Company's shareholders' stake in the Company losing its value. As stated above, from the perspective of the owners, the realisation restructuring process in practice corresponds to bankruptcy proceedings. In the administrator's view, the principle of the most lenient method contained in the Restructuring of Enterprises Act and from the perspective of the creditors can be implemented in the manner proposed herein.

In order to ramp-up the Talvivaara group's mining operations to full scale, a significant amount of new financing for the operative activities is required immediately. For this reason, it has been necessary to carry out debt cuts to significantly reduce the amount of 'old debt' to be paid out of the group. With respect to the parent company, the cash flows from future business operations will be used to pay its remaining liabilities during an eight-year programme.

The restructuring programme to be approved will not have a direct effect on the position of Talvivaara Mining Company Plc's owners.

Talvivaara Mining Company Plc cannot pay dividends or otherwise distribute its funds to its owners during the implementation of the restructuring programme.

The realisation restructuring process of Talvivaara Sotkamo Ltd will most likely affect the value of Talvivaara Mining Company Plc's shares. Once the method, terms and conditions and the receiving party of the transfer of business operations are known, the administrator will supplement the restructuring programme and propose potential corporate prerequisites for the approval of the restructuring programme.

The prerequisite for the continuation of the mining operations of the entire Talvivaara group is the securing of a significant amount of new financing. The companies currently undergoing restructuring cannot be helped by converting the capital of the receivables of their creditors into new capital in the companies. If sufficient new financing cannot be obtained by the Talvivaara group, it is clear that both companies will have to be declared bankrupt. This would inevitably lead to both current and potential converted capital being entirely lost. For this reason, the administrator is not proposing in this case that the creditors' claims be voluntarily converted into various capital instruments in a way that would require resolutions of the general meeting. The Restructuring of Enterprises Act also does not recognise such a debt arrangement method.

Based on the above, and considering what has been stated in Supreme Court decision KKO 2003:120, the administrator is of the opinion that the proposals presented herein do not violate the requirement set out in section 44(3) of the Restructuring of Enterprises Act that the measures used in the debt arrangement must not restrict the rights of a creditor beyond what is necessary for the achievement of the purpose of the restructuring programme.

Before filing the supplemented draft programme the administrator will consider the possibility to implement a conversion of the restructuring debt into share capital (debt-to-equity-swap) as part of the overall solution.

4 Debt Arrangement Relating to the Restructuring Proceedings

The total amount of restructuring debt to be taken into account in the Company's restructuring proceedings is approximately EUR 481.9 million. This amount does not include lowest-priority debt.

Some of the restructuring debts are secured by collateral. The administrator estimates that the amount of secured restructuring debt is EUR 3 million after the deduction of liquidation costs.

The administrator is of the opinion that the value of the assets subject to business mortgages was EUR 15 million at the time the proceedings began. As a result, restructuring debt secured by business mortgages amounted to EUR 7,5 million.

The total amount of unsecured restructuring debt is EUR approximately 478.9 million.

The continuation of mining operations will require significant new financing. Based on discussions held by the administrator, it is clear that unsecured restructuring debt must be significantly cut in order to make the new consolidated balance sheet (Talvivaara Mining Company Plc and NewCo) attractive to industrial and financial investors and to complete the realisation restructuring process.

The administrator proposes that the capital of unsecured debts be cut. The administrator's estimate is that unsecured restructuring debts must be cut by 97%, which would leave 3% of the capital of such debts to be paid. No payments will be made on debts with lowest priority.

The restructuring programme also includes two different calculations comparing the restructuring proceedings to bankruptcy proceedings. The first calculation estimates what disbursements could be made to creditors in a realisation bankruptcy, i.e. in a situation in which the bankruptcy estate of Talvivaara Sotkamo Ltd would be successful in selling the mining operations included in the estate's assets as a going concern and be able to pay disbursements to its creditors, such as Talvivaara Mining Company Plc. The second calculation describes a situation in which the bankruptcy estate of Talvivaara Sotkamo Ltd would shut down the business operations of the mine and cease mining operations.

The administrator is of the opinion that it is highly likely that the bankruptcy of Talvivaara Sotkamo Ltd would also lead to the bankruptcy of Talvivaara Mining Company Plc and vice versa.

In the administrator's view, no disbursements of any kind could be made to secured creditors or unsecured creditors in either bankruptcy alternative, because Talvivaara Sotkamo Ltd's bankruptcy estate would be unable to pay disbursements of any kind to unsecured creditors, such as Talvivaara Mining Company Plc. The necessary costs of managing and realising the pledge exceed the possible income from realisation. As a result, despite the significant percentage of the cut of debts and the low value of collateral, the restructuring programme still leads to a more favourable result for all the creditors than bankruptcy.

The creditors of unsecured debt will be provided the opportunity to receive supplementary payments during the implementation of the programme.

The term of the restructuring programme is eight years. No payments will be made to creditors during the first two years. Thus, the payments to creditors will take place during 2017–2022 so that the creditors will be paid 10% per year of the capital cut in accordance with the programme during the first two years (2017–2018) and 20% per year thereafter (2019–2022).

The secured debts and leasing debts will be paid off according to the same schedule as the unsecured debts. For the duration of the programme, interest corresponding to the 12-month euribor plus a margin of 2% will be paid on the secured debts and the leasing debts.

The company has the right to repay the restructuring debts before maturity.

As a publicly listed company, Talvivaara Mining Company Plc must report that the Company has complied with its restructuring programme in connection with its normal reporting obligation concerning a listed company.

5 Financing of the Restructuring Programme

Talvivaara Mining Company Plc must obtain sufficient cash flow in order to effect the payments under the restructuring programme to the creditors. Due to the reduction in debt servicing costs, the Company's cash flow is expected to affect such payments, provided that sufficient fees for producing group and rental services are agreed with the new operative subsidiary.

Talvivaara Mining Company Plc is entitled to payment of its EUR 519.3 receivable after set-offs from Talvivaara Sotkamo Ltd in accordance with Talvivaara Sotkamo Ltd's restructuring programme. Talvivaara Mining Company Plc has pledged EUR 300 million of this receivable as security for its own and its sub-

sidiary's loans. Payments of the receivable exceeding the pledge will remain for the benefit of Talvivaara Mining Company Plc and can be used to strengthen the company's cash reserves in order to effect the payments in accordance with the restructuring programme.

Talvivaara Mining Company Plc has loaned approximately EUR 8 million to Talvivaara Sotkamo Ltd during the restructuring proceedings. The repayment of this debt that arose during the proceedings must be agreed in connection with the business purchase relating to the realisation restructuring process. The administrator is of the opinion that the purchaser of Talvivaara Sotkamo Ltd's business operations must assume liability for the repayment of this debt in a manner to be separately agreed with Talvivaara Mining Company Plc. The payments of this debt will for their part strengthen the company's cash reserves and help the company effect its payments under the restructuring programme.